

July 2020

Private Foundations Bulletin

IRS Announces New Audit Initiative for Private Foundations

With its People First Initiative set to expire July 15, 2020, the Internal Revenue Service (IRS) has announced a new audit initiative that targets private foundations. This new audit initiative will focus on high-income individuals and households with connections to certain pass-through entities such as S-corporations, partnerships and **private foundations**.

Universally known as the "Wealth Squad," the IRS maintains a dedicated group of examiners whose primary focus is that of high-income and high-wealth entities. A typical Wealth Squad examination takes an all-inclusive approach, which focuses beyond the high-income taxpayer's Form 1040 and examines the related party transactions of a taxpayer's pass-through entities, such as private foundations.

As the IRS readies for the new audit initiative, they have identified approximately 1,000 private foundations with connections to pass-through entities in line with their high-wealth targeted audits.

How Should a Foundation Respond to an Audit?

History has shown that inquiries made by representatives from the IRS can be quite thorough. For example, during one audit, the representative asked how trustee compensation was determined and by whom, the amount of time a trustee spends on the foundation's behalf, and the nature of duties performed by each trustee. In addition, the representative requested minutes from board meetings indicating approval of trustee compensation and asked if the foundation had an independent compensation committee and an independent compensation study.

If a representative from the IRS contacts your foundation, don't panic. Contact the foundation's attorney and/or CPA. All communications with the IRS should go through these representatives.

Areas Typically Scrutinized by the IRS

- Trustee and employee compensation
- Expense accounts
- Investments in businesses or partnerships owned or managed by foundation trustees
- Investment vehicles such as limited partnerships
- Self-dealing issues
- Related party transactions
- Contributions to non-public charities
- Certain administrative expenditures
- Loans

Contact Us

We welcome the opportunity to answer any questions you may have related to this topic or any other accounting, audit, tax or advisory matters relative to private foundations. Please call 212.286.2600 or email any of the Private Foundation Services team members below:

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